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BELLSOUTH

Maurice P. Talbot, Jr.
Executive Director-Federal Regulatory
December 8, 1994

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EX PARTE

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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RE: Ex Parte Presentation in Price Cap Performance Review, CC Docket No. 94-1

Dear Mr. Caton:

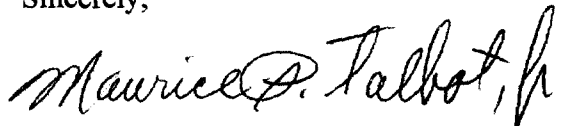
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This notice of an oral ex parte presentation in the above-referenced proceeding and the attached material are provided for inclusion in the public record pursuant to the Commission's ex parte rules at 47 C.F. R. § 1.1200 et seq. BellSouth representatives met with Dr. Michael Katz, Chief Economist, Karen Brinkmann, Special Assistant to Chairman Hundt, and James Coltharp, Special Advisor to Commissioner Barrett to discuss BellSouth's position in this proceeding and to rebut positions advanced by opponents in ex parte presentations in this proceeding.

Representing BellSouth were L. Darby, Economic Consultant, Darby and Associates, G. Epstein, Attorney, Latham & Watkins, Robert Blau and the undersigned. The discussions at the meeting were consistent with BellSouth's position already on file in this proceeding. The attached charts were also passed out during the meeting as an aid to the discussion. Due to the lateness of the hour at the conclusion of BellSouth's ex parte meetings, this notice is being filed on the next business day.

If you have any questions regarding this matter, please do not hesitate to call the undersigned.

Sincerely,



Maurice P. Talbot, Jr.
Executive Director - Federal Regulatory

Attachments

cc: Michael Katz (w/o attachment)
Karen Brinkmann (w/o attachment)
James Coltharp (w/o attachment)

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OVERVIEW

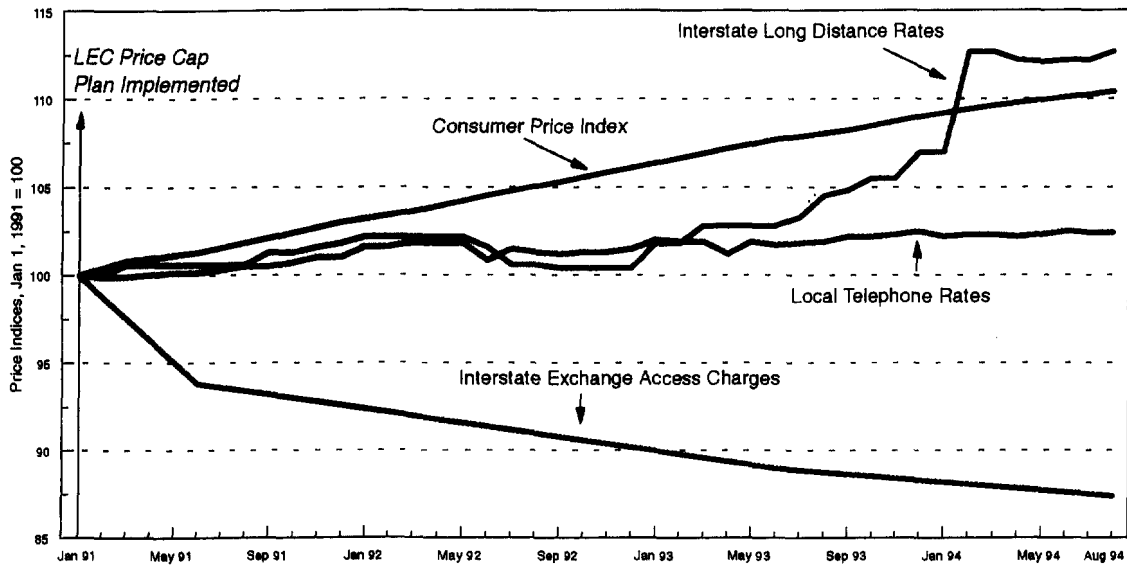
- **Price Caps are "mostly" working**
 - **Access charges going down**
 - **LEC investment going up**
- **Main issues in this proceeding**
 - **Who's benefiting?**
 - **Earning levels**
 - **Investment incentives**
- **Commission should improve plan**
 - **Increase incentives**
 - **Eliminate sharing**

LEC PRICE CAP SCORECARD

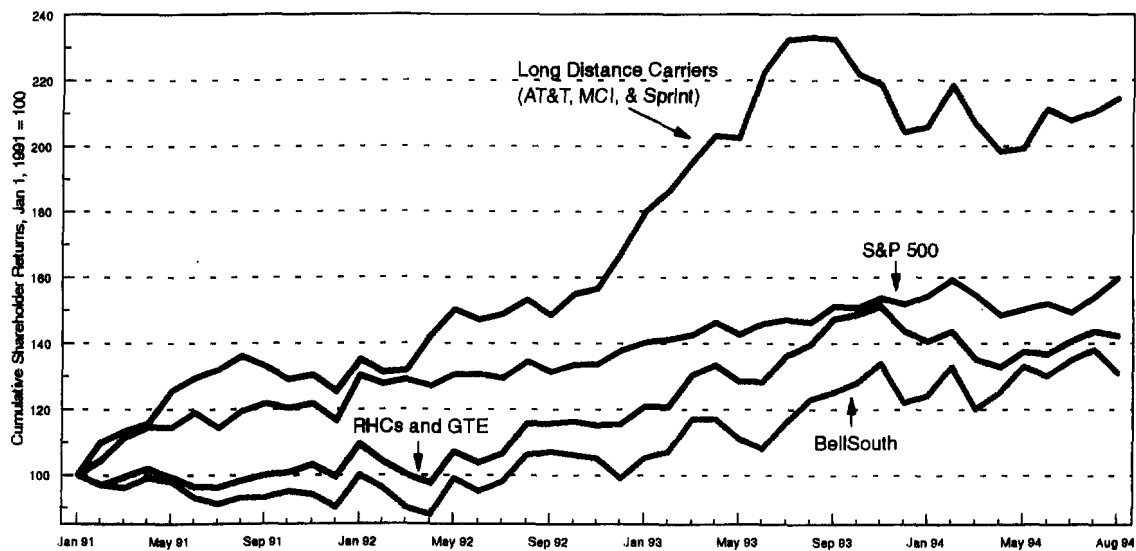
- **\$5.3 billion cumulative value LEC access charge reduction (Jan. 1991 to Dec. 1994)**
- **LEC investment increased - despite increased risk and reduced growth prospects.**
 - **Ratio of BOC capital spending to cash flow up - 48% to 52%**
 - **Absolute level also increased**
 - **IXC ratio down - 57% to 48%**

Recent Trends In Prices And Shareholder Returns In Local And Long Distance Telecommunications Markets

Despite reductions in exchange access charges that have occurred since the LECs' price cap plan was implemented in January 1991, the interexchange carriers (IXCs) have raised interstate long distance rates sharply over the past 2 years. . .



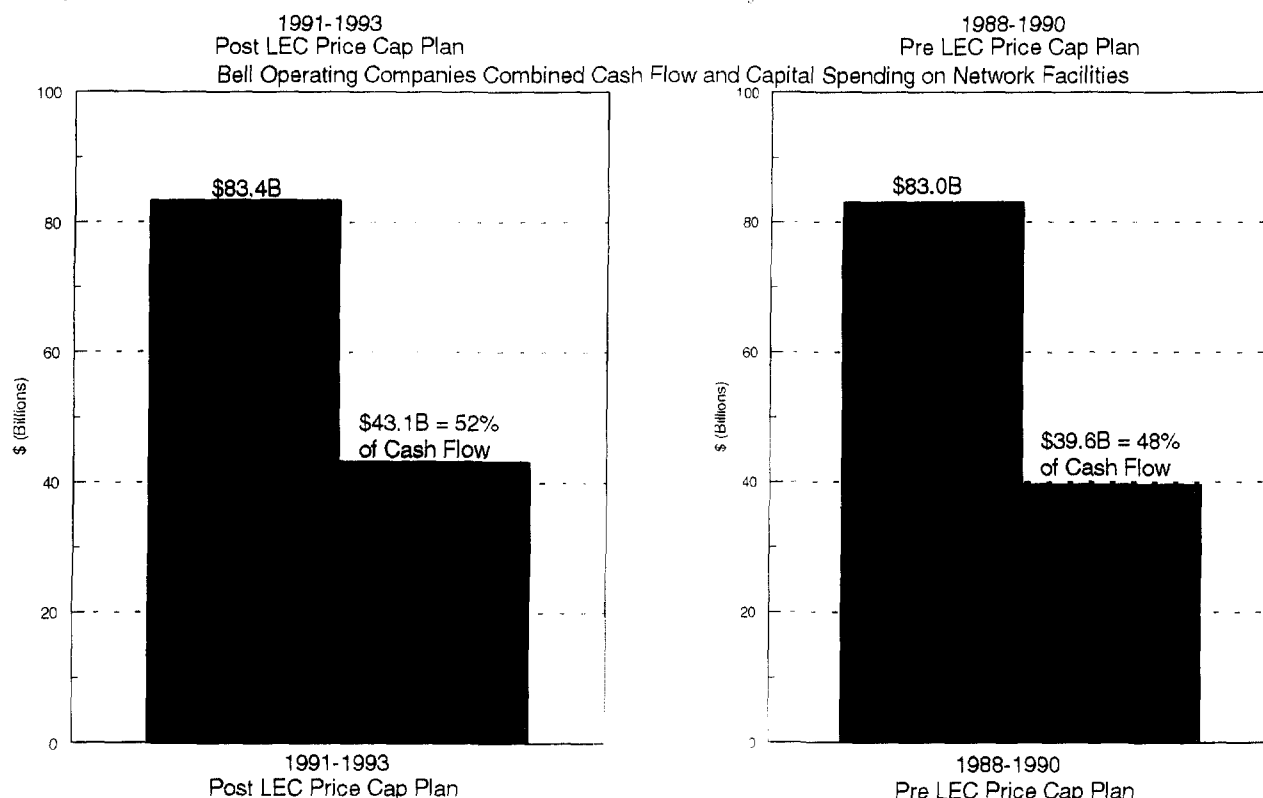
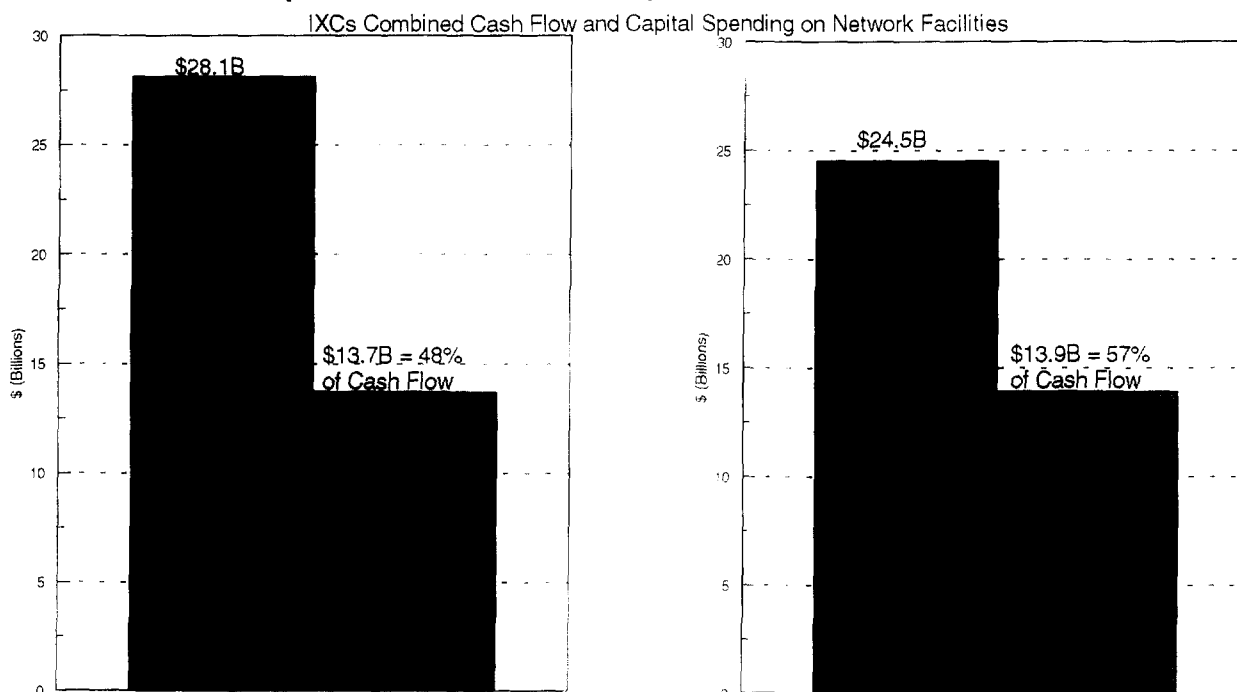
... shifting billions of dollars from local and long distance customers to IXC shareholders.



Note: Cumulative shareholder returns are based on market weighted monthly averages of total shareholder returns for individual companies.

Sources: Bureau of Labor Statistics, FCC, Compustat

Percentage of Cash Flow that the Interexchange Carriers and Bell Operating Companies Have Invested in Their Respective Telecommunications Networks Before and After the Implementation of Price Caps



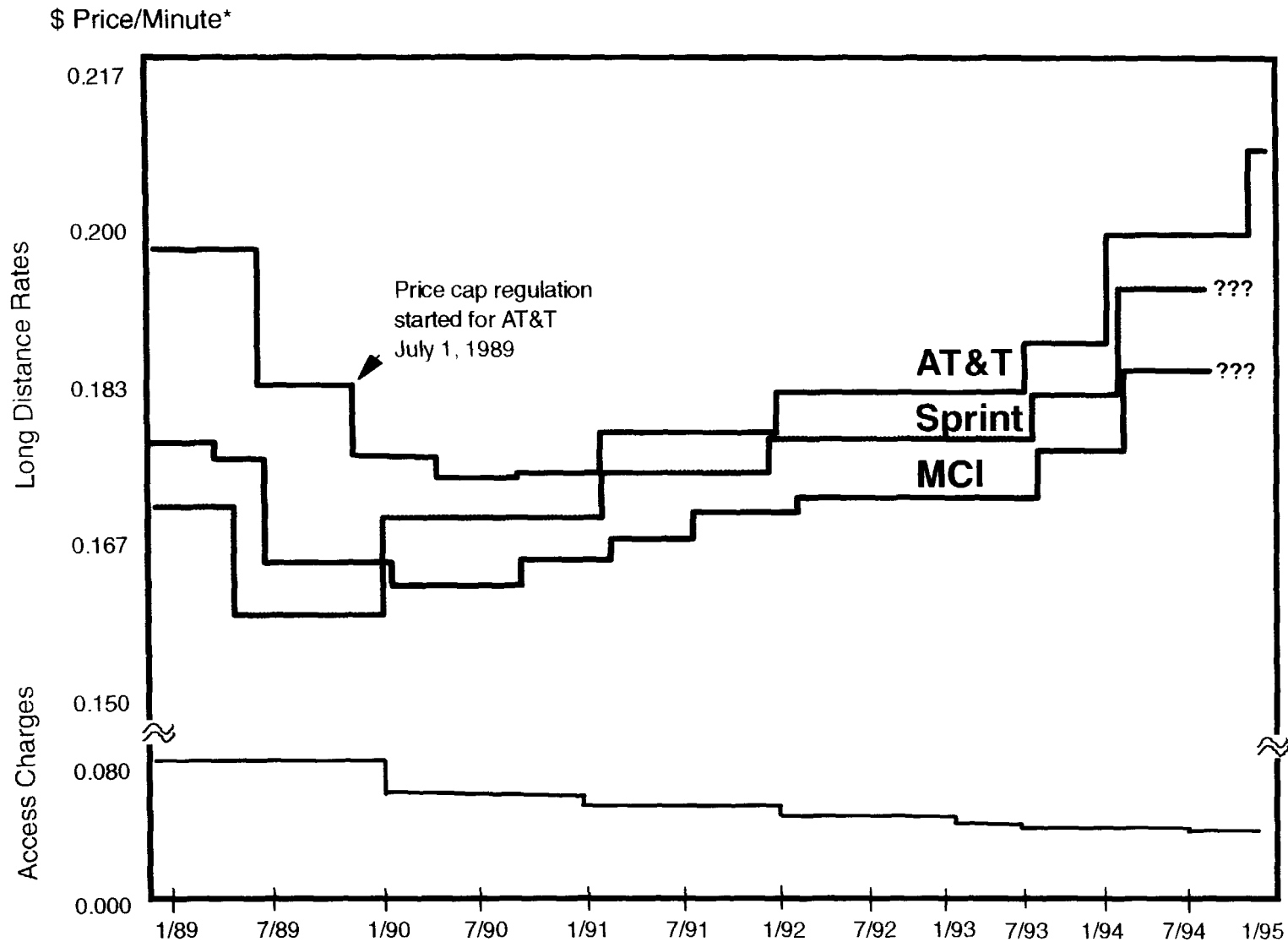
Note: Cash flow is earnings before interest, taxes, and depreciation and amortization.

Sources: Compustat and FCC Form M

WHO BENEFITS?

- **Consumer benefits from LEC improvements contingent on IXCs**
- **LEC access charge reductions reaped by IXC shareholders**

Trends in Long Distance Rates and Exchange Access Charges



*Long distance rates based on the average price per minute for basic service.

AT&T's Telecommunications Services

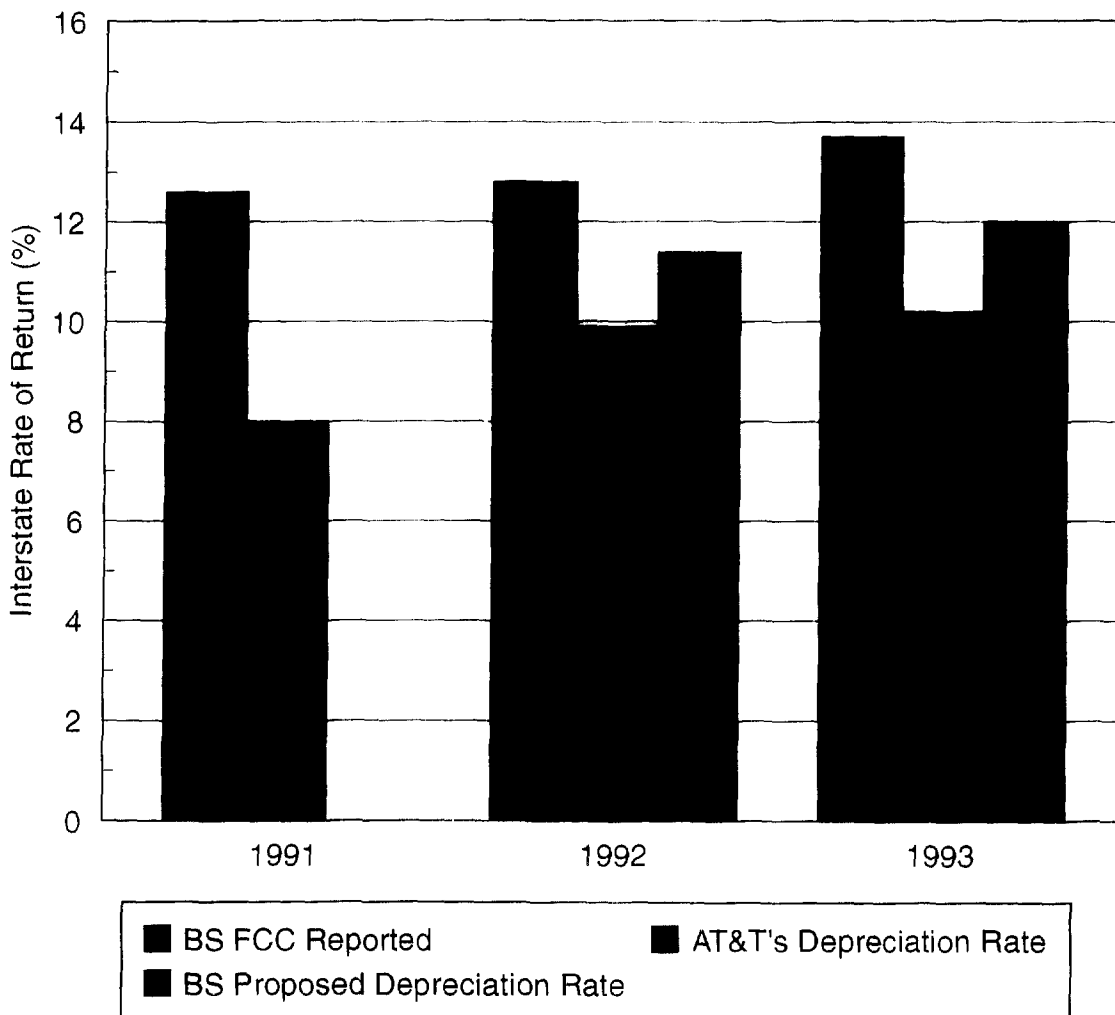
Dollars in Millions	1991	1992	1993	% Change 1991-93
Total Revenues	\$38,805	\$39,580	\$39,863	+2.73%
Access & Other Interconnection Costs	\$18,395	\$18,132	\$17,709	-3.73%
Gross Profit Margin	34.9%	36.2%	38.0%	+8.88%

EARNING LEVELS

- **Several measures of earnings**
 - **Backward looking accounting view not relevant**
 - **Investors consider economic data, prospectively**
- **Book earnings distorted by depreciation**
- **Total shareholder returns relevant and reasonable**

BellSouth's 1993 Interstate Rate of Return Would be Nearly Four Percentage Points Lower if it Depreciated its Plant and Equipment at the Same Rate AT&T Depreciates its Plant and Equipment

	BellSouth Reported Earnings	Earnings with AT&T Depreciation Rate	BellSouth Proposed Depreciation Rate
1991	12.6%	8.0%	N/A
1992	12.8%	9.9%	11.4%
1993	13.7%	10.2%	12.0%



Note: BellSouth's depreciation rate not applicable in 1991

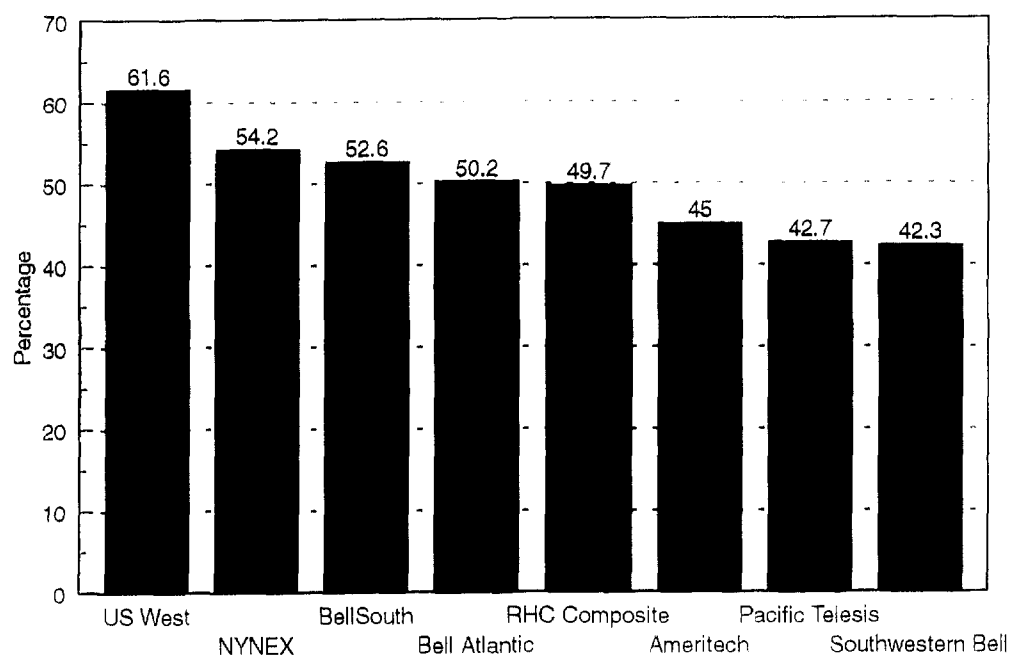
REGULATION MATTERS

- **Markets link returns and investment**
- **RHC shareholders not being rewarded by BOC investing in local network**

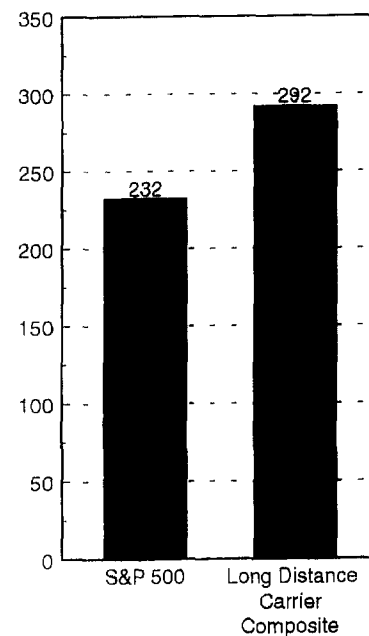
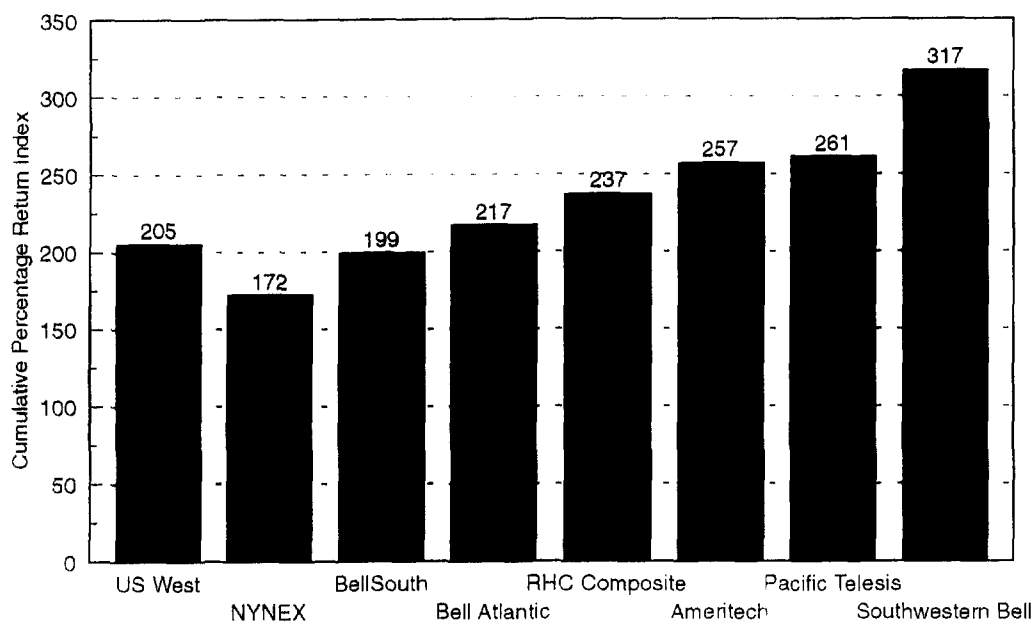
CONCLUSION

- **REDUCING EARNINGS WILL REDUCE INVESTMENT**
- **INCREASING INCENTIVES WILL INCREASE INFRASTRUCTURE INVESTMENT**

Bell Operating Company's Capital Spending as Percent of Cash Flow 1988-1993



RHC Cumulative Shareholder Return 1988-Present



Source: One Source and Compustat

Note: Cash flow on earnings before interest, taxes and depreciation, and amortization. Cumulative shareholder return includes dividend yield and price appreciation of RHC stocks since January 1, 1988.